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RUEHBI/AMCONSUL MUMBAI 2112
RUEHPW/AMCONSUL PESHAWAR 4874
RUEHIL/AMEMBASSY ISLAMABAD 4961
RUCPDOC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

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URDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER
USTR FOR CATHERINE HINCKLEY

E.O. 12958: N/A
TAGS: EAGR EFIN EINV EPET ETRD SENV IN ECPS BEXP

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
JUNE 2-JUNE 6, 2008

REF A) NEW DELHI 1479
B) MUMBAI 246
C) NEW DELHI 1519

NEW DELHI 00001561 001.2 OF 004

¶1. (U) Below is a compilation of Economic highlights from Embassy New Delhi for the week of June 2-June 6, 2008, including the following items:

-- ECB NORMS FOR SERVICES SECTOR LIBERALIZED
-- ANTI-DUMPING DUTY REVIEW WORRIES SHRIMP EXPORTERS
-- TRENDS IN INDIAN EXPORTS
-- INDIA'S FY 2007-08 GDP REVISED UP TO 9%
-- PRIME MINISTER ANNOUNCES AUSTERITY MEASURES
-- MOVEMENT ON BANGALORE INFRASTRUCTURE PROJECT
-- HIGH INTEREST RATES CURB RESIDENTIAL REAL ESTATE GROWTH

ECB NORMS FOR SERVICES SECTOR LIBERALIZED

¶2. (U) The Finance Ministry, in consultation with the Reserve Bank of India (RBI), agreed to relax the external commercial borrowings (ECBs) norms for the service sector. The RBI issued a notification on June 2 to allow services sector companies (such as hotels, hospitals, and software businesses) to raise funds from overseas up to $100 million for the import of capital goods under the approval route, in which the borrower must obtain the permission of the RBI. Previously, service companies were not allowed to obtain ECBs. The move follows the RBI's decision, announced last week, to allow companies in the infrastructure sector to avail of ECBs up to $100 million under the approval route (see refs A and B).
¶3. (U) The software industry's response was tepid as it assesses that the top-tier IT companies do not need to access ECBs as they are cash surplus. Smaller firms may gain from the new route to

raise capital from abroad at lower interest rates. However, many smaller firms may still be blocked from external finance since such firms often find it hard to obtain a rate within the government's required 350 basis points (bps) of LIBOR for medium-term loans. A Planning Commission report by the high level group on the services sector in March 2008 had recommended reviewing the ECB policy for the sector. The report indicated that several sub segments within the services sector require significant capital investment and the need to raise debt resources to finance asset creation. At present, the services sector contributes to more than 55% of India's GDP and accounts for about 26% of total organized sector employment in the country. Dr. Ranade, Chief Economist of the Aditya Birla Group, assessed that this was another small but positive move, building on last week's steps. He predicted that the overall ECB limits will not be lifted until the inflation scare faced currently by the RBI passes, which he said will take at least a year.

ANTI-DUMPING DUTY REVIEW WORRIES SHRIMP EXPORTERS

¶4. (U) Indian shrimp exporters are concerned that the U.S. Department of Commerce's selection of just two shrimp exporters -- Devi Sea Foods and Falcon Marine, both of whom are among India's largest -- will skew Commerce's review of the U.S. anti-dumping duties on Indian shrimp. Elias Sait, President of the Seafood Exporters Association of India told Consulate General Chennai that previous reviews surveyed small and mid-sized exporters, in addition to large exporters. He said small and mid-sized exporters are worried that the larger margins Devi and Falcon generate due to their market power will result in a higher anti-dumping duty against Indian shrimp. But Mohan Kumar, Chairman of India's Marine Products Export Development Agency, told post that he remains optimistic that the review will result in a reduction of anti-dumping duties.

TRENDS IN INDIAN EXPORTS

¶5. (U) The center of gravity of India's exports is shifting somewhat from the US market to the Gulf and Asia, according to a recent Dun & Bradstreet report. The US has traditionally been India's leading export destination, but for Indian Fiscal Year (IFY) 2007-08, it accounted for approximately 15 per cent of total merchandise exports, a decline from 21 per cent in IFY 2003-04. Meanwhile, the share of the UAE in India's total exports expanded to 9.5 percent in IFY 2007-08 from 6.3 percent in IFY 2003-04 due to strong growth in exports of refined petroleum products, which constitute almost 1/3 of India's export basket to the UAE. In addition, shares of China and Singapore in India's exports have almost doubled during the corresponding period. These trends suggest that India is now trading with other emerging markets by diversifying its export product basket and improving product quality.

¶6. (U) India's total exports registered 23 percent growth in IFY 2007-08 (USD 155.5 billion), and total imports for the same period grew 27 percent (USD 235.9 billion). The GOI has set a target to achieve 27 percent export growth in IFY 2008-09. The latest GOI data on India's foreign trade shows 31.5 percent export growth during the first month of IFY 2008-09 (April 2008) valued at USD 14.4 billion compared with the level of USD 10.95 billion during April 2007. India's imports during April 2008 rose 36.6 percent to USD 24.27 billion compared with last year's level of USD 17.77 billion for the same period. Non-oil import growth is estimated at around 32 per cent.

INDIA'S FY 2007-08 GDP REVISED UP TO 9%

¶7. (U) The government last week released revised estimates that the India economy grew by 9% in FY 2007-08, somewhat higher than the 8.7% estimated earlier by the government's Central Statistical Organization in February. This completes an unprecedented three straight years of at least 9% growth. The higher

than-expected-growth is mainly due to a sharp increase in the estimated production of agricultural crops. The agricultural and allied sector registered an increase of 4.5%, compared to the earlier estimates of 2.6%. (Comment: Production of wheat, rice, pulses and oilseeds has managed to recover to levels that prevailed some years ago. The fresh momentum seems to be coming from activities like dairy, poultry, fishing, and cash crops, like cotton, as well as fruits and vegetables. End comment.)

¶8. (U) However, the manufacturing sector slowed to 8.8% during FY 2007-08, compared to 12% growth in FY 2006-07. The services sector continued to remain buoyant at 10.8%, driven mainly by the financial services sector (including insurance and real estate) which rose by 11.8%, while construction activity was robust at 9.8%. Investment as a proportion of GDP going into capital formation touched 37.5% in FY 2007-08, up from 35.9% the previous year. The high GDP growth has meant a rise in per capita income to $1021. At the average 7% growth in per capita income over the last four years -- double the income growth rate of the previous two decades -- Indians' incomes could double within a decade. Finance Minister Chidambaram forecasts GDP growth for FY 2008-09 at 8.5% and has promised to take corrective measures to address the slowdown in manufacturing. But experts expect GDP growth to slow down to between 7.5-8% in FY 2008-09 due to the industrial sector slowdown, tight monetary regime, high inflation, heightened fuel prices, and problems in the global financial sector.

PRIME MINISTER ANNOUNCES AUSTERITY MEASURES

¶9. (U) Prime Minister Singh, after announcing fuel price hikes this week (see reftel C), sent a letter to his council of ministers and officers asking them to practice austerity measures and cut wasteful spending in order to mitigate the inflationary impact of the hike. As a result, the Finance Ministry issued guidelines on June 5 directing all ministries and departments to cut their non-plan expenditure up to 10 percent to ensure that adequate resources were available for meeting the objective of social sector schemes. The measures include cutting down spending on foreign and domestic travel (except where necessary), overtime allowances, publications, advertising and publicity, and professional services. The ministries will also not be allowed to hold conferences in luxury five star hotels. Further, a mandatory 5 percent cut in expenses will be achieved by not approving any new non-plan scheme except the ones already approved in the budget.

¶10. (U) The guidelines are not applicable to salaries, pensions, interest payments, defense capital, repayment of debt and the Finance Commission's grants to the states - the majority of the central budget. By adopting the austerity measures, the government aims to save about USD 1-1.5 billion in the current fiscal year. Reiterating the Prime Minister's concerns, Expenditure Secretary Sushma Nath told reporters that there is tremendous pressure on government resources due to food and fertilizer subsidies, the National Rural Employment Guarantee Program and rising oil prices, leading to the need for rationalization of expenditure. Comment: The efforts at belt-tightening were probably also triggered by the projected loss of revenue, estimated at roughly $5 billion, from the tax cuts announced as part of the package to help the state-owned oil marketing companies. The revenue loss could add as much as 0.4% to the projected fiscal deficit of 2.5%, if other expenditures are not reined in, or overall revenues do not exceed projections. End comment.

MOVEMENT ON BANGALORE INFRASTRUCTURE PROJECT

¶11. (U) The new Bharitya Janata Party (BJP) government in Karnataka is set to clear the way for the long-stalled Bangalore-Mysore Infrastructure Corridor. First proposed in 1995, the 500 million dollar public-private partnership project has been stalled because of problems in acquiring the land needed to build the proposed eight-lane expressway between Bangalore and Mysore. A senior

official in the recently sworn-in Chief Minister's office told post that the government will soon remove the final impediments to land acquisition. Media reports have suggested that one of the project's main promoters, the U.S.-based non-resident Indian Ashok Kheny, bank-rolled the BJP's recent election campaign.

HIGH INTEREST RATES CURB RESIDENTIAL REAL ESTATE GROWTH

¶12. (U) According to ICICI Bank, which has a significant share of the Indian home loan market, high interest rates have negatively impacted the Indian residential real estate sector. As interest rates on most home loans have gone up from eight per cent to twelve per cent, there has been a slowdown in the number of deals. However, prices have not declined, partly because builders have greater holding power since many finance their projects using equity capital rather than debt. ICICI Bank states speculative demand in Indian real estate had historically been minimal, with growth largely a function of affordability and actual underlying demand for residences from households with rising incomes.

¶13. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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